

**Attorney General's  
Third Set of Information Requests**

**THE BERKSHIRE GAS COMPANY  
D.T.E. 04-47**

**Witness:** Karen L. Zink  
**Date Filed:** October 6, 2004

**Question**

**AG-3-1:** Refer to the Company's Audit Report and response in DTE 125(b) (Supp.). Please produce copies of the documents referenced in the Audit Report including, but not limited to, the <<**Confidential**

>>**Confidential.**

**Response:** The workpapers prepared by the audit team are provided as Attachment AG-3-1(A). The post-April 1, 2004 Operating Procedures and the Allocation Agreement are included within Exh. BG-3. The Alliance Validation and Allocation Procedures and the pre-April 2004 Operating Procedures are included in section D of the workpapers. Evidence of testing performed and examples of source documents, to the extent retained in the workpapers, are included in sections G, H, I, J and K, the testing sections of the workpapers. Many of the source documents examined during the audit are included by reference only.

**\*\*ATTACHMENT IS CONFIDENTIAL AND PROPRIETARY\*\***

**\*\*PROTECTIVE TREATMENT\*\***

**\*\*BULK ATTACHMENT\*\***

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**Question**

**AG-3-2:** Refer to the Company's Audit Report and response in DTE 1-25(b) (Supp.). Please identify by name, company, title and job description the members of the Alliance Team and the Allocation Team. Please also identify by name, company, title and job description the members of the Alliance who reviewed the Audit Report prior to its release. Please provide the curriculum vitae for Tom Deering, Ken Chrostowski, and all other members of the Audit Team.

**Response:** The names of the members of the Allocation team have been previously provided. Please refer to the response to Information Request AG-1-66. BP Alliance Team members are included on the BP organization chart included in the workpapers (Attachment AG-3-1(A)) at D-1.

The audit report was reviewed for factual content by John Rudiak, CNG Managing Director, Energy Services and Brian Hawley, NYSEG Manager – Gas Supply prior to release, whose curriculum vitae were provided in the response to Information Request AG-1-66 (Supp.).

Attachment AG-3-2 provides the curriculum vitae for T. Deering and K. Chrostowski, from the audit team.

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**Question**

**AG-3-3:** Refer to the Company's Audit Report and response in DTE 125(b) (Supp.). Please identify the personnel by name, company, title and job description with whom the Audit Team conferred for explanations of how savings dollars were calculated, categorized and allocated.

**Response:** The audit team discussed the savings calculation, categorization and allocation process with Alliance team members, as noted in the response to Information Request AG-3-2. Included in section E of the audit workpapers, Attachment AG-3-1(A), is the Audit Program that provides a summary of the work performed.

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**Question**

**AG-3-4:** Refer to the Company's Audit Report and response in DTE 125(b) (Supp.). Please explain how the Company's selection of the months for its audit and selected transactions audited represents a statistically valid sample of all optimization transactions completed during the contract terms. Also, explain how the statistical validation relates to Berkshire's transactions under its optimization agreement.

**Response:** The Company understands that the audit team selected specific months for audit testing through the application of appropriate audit judgment based on the audit team's understanding of the nature of alliance activities. The audit team selected a contract year close-out month (March 2003), a storage fill month (April 2003) and a storage withdrawal month (December 2003) as the basis for our testing. See the workpapers (Attachment AG-3-1(A)) for the specific transactions tested for each of the savings categories for these months. The goal of the audit process is not to review all transactions or even a specific percentage of transactions. The months selected ensure that a range of alliance transaction would be likely to occur in the selected months. The audit team determined that procedures and controls for savings and allocation were appropriate and operating as intended. Importantly, if the audit team had identified material concerns the scope of the audit would have been expanded.

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**Question**

**AG-3-5:** Refer to the Company's Audit Report and response in DTE 125(b) (Supp.). Please explain how the Allocation Team updated the BP Alliance Validation and Allocations Working Procedures. Please provide a narrative description and a marked-up copy of the Working Procedures that reflects those changes.

**Response:** The Audit Report indicated that management agreed to update the Procedures. The Allocation team is in the process of evaluating and updating the Working Procedures consistent with the recommendation of the Audit Report.

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**Question**

**AG-3-6:** Refer to the Company's Audit Report and response in DTE 125(b) (Supp.). Please list the documents that the Audit Team requested but did not receive in connection with its audit review.

**Response:** The auditors requested to review the Alliance workpapers to support their monthly reviews of savings and also the documentation to support the more extensive two month categorization reviews as described in the workpapers at D-9 pg 5/16. As noted in the response to Information Request DTE-1-25 (Supp.), the Allocation team retained various records on its efforts, it did not maintain formal workpapers.

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**Question**

**AG-3-7:** Refer to the Company's Audit Report and response in DTE 125(b) (Supp.), page 4. Please provide the schedule of the monthly reviews of savings that supports the Audit Team's findings that "<<**Confidential**

**Confidential>>"**

**Response:** Please refer to the response to Information Request AG-3-6.

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**Question**

**AG-3-8:** Refer to the Company's Audit Report and response in DTE 125(b) (Supp.), page 4. Please describe the Allocation Team's new process to "<<**Confidential**  
**Confidential**>>."

Please provide a sample of that new documentation.

**Response:** The Allocation team is currently working on developing the process.



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**Question**

**AG-3-9:** Please explain how the Energy East internal auditing organization determined which specific transactions that it audited. Include all internal and external guidelines or procedures that governed or supported the design of the BP optimization agreement audit.

**Response:** Please refer to the response to question AG-3-4. Also, see the Audit Program in workpaper section E-1 (Attachment AG-3-1(A)).

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**Question**

**AG-3-10:** Please explain how the Energy East Internal Auditors assured that BP was in full compliance with the Energy East Derivatives Policy. As part of this response describe, in detail, what specific documents and procedures the auditors reviewed.

**Response:** As stated in the Audit Report, the focus of the audit was to assess the procedures and controls over the calculation and reporting of savings and the allocation of the savings to the member companies.

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**Question**

**AG-3-11:** Please provide all materials reviewed by the audit team that support a finding that derivative transactions entered into by BP under the terms of the optimization agreement were in compliance with the Energy East Derivative Policy.

**Response:** Please refer to the response to Information Request AG-3-10.

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**AG-3-12:** Please explain how (procedures and data) the auditors reviewed the total optimization fee/share paid to BP and validated the accuracy of the amount paid. Also, explain how the auditors determined the computation of BP's share complied with the terms of Berkshire's optimization agreement. State the Audit Team's findings regarding the calculation and allocation of the BP share to Berkshire. See Tr. Vol. I, pp 25-27.

**Response:** Please refer to the audit workpapers (Attachment AG-3-1(A)) – section F for the testing and validation of the allocation of the savings dollars among BP and the Companies.

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**AG-3-13:** During the course of the audit, did the auditors discover any errors, omissions or problems in addition to the monthly review problems discussed in the audit report? If yes, please explain each problem, describe the transactions involved, the dollar amount of the error, and how and when each problem was corrected.

**Response:** The audit team identified a minor discrepancy of approximately \$3000 in the savings categorization dollars for the month of March 2003. Please refer to section H of the workpapers (Attachment AG-3-1(A)) for the information on the details and the disposition of this matter.